

Before the Closing

Moderator:

Stuart M. Weiss, Vice President, Wells Fargo Corp Trust Services

Panel:

Dave Persselin, Debt Administrator, City of San Jose

Eric Sandler, Deputy Director of Finance, San Diego County Water Authority

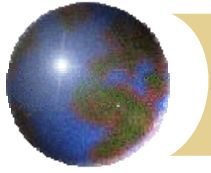
Tim Seufert, Director, NBS Local Government Solutions

Living with an Issue: On-Going Debt Administration

April 19, 2007

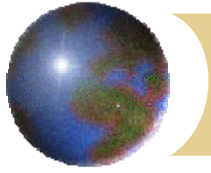
Long Beach, CA





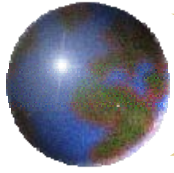
Understand Issuer's Responsibilities in Closing Process

- Have you, as issuer, designated a closing coordinator?
- Does the issuer need to wire funds to the Trustee?
- Is an issuer representative expected at the preclosing/closing?
- Are funds being wired to the Issuer?
- Final reports/documentation/certificates of issuer?



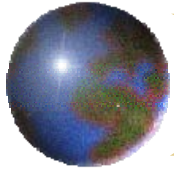
Develop a Plan for Executing Documents and Providing Certificates

- Designate a closing coordinator to interface with bond counsel
- Require bond counsel to send packet of draft closing certificates and documents in advance of execution for internal review
- Insure that your authorized representatives are available to execute documents
 - Schedule meetings to sign documents
 - Don't wait to the last minute
 - Do you need a notary or governmental agency official seals?



Document Review – General Comments

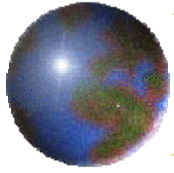
- Process starts from the “kick-off” conference call
- Be proactive; be engaged; be tenacious
- In the end, it’s just you (issuer), trustee and the documents
- Make the documents work for you, not you work for the documents



Document Review – Indenture of Trust

Key Elements

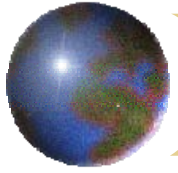
- Insure All Appropriate Trust Accounts are Designated – things to look for:
 - Construction Funds – sub accounts
 - Transferred Proceeds – funds from prior issue
 - Rebate Funds/Accounts
 - Cost of Issuance Funds
 - Capitalized Interest or Fees
 - Debt Service Funds/Accounts (principal & interest)
 - One fund for all parity debt
 - Separate funds by bond series
 - Reserve Fund – valuation dates



Document Review – Indenture of Trust

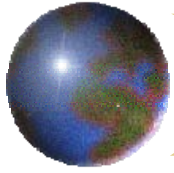
Key Elements

- Understand Flow of Funds and Earnings
 - Interest earnings during and after construction period
 - Unspent proceeds
 - Reserve Fund excess earnings
 - Valuation Dates
 - Insure Permitted Investment Language is Appropriate
 - Is your Investment Policy mentioned?
 - Logistics to provide investment direction



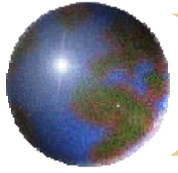
Document Review – Covenants and Representations

- Similar covenants may appear in multiple documents (indenture, credit agreements, dealer agreements, etc...)
 - Issuance of additional debt
 - Availability of accounting information
 - Notification of changes in law/regulation
- Be consistent among documents
- Pay attention to cure periods for covenant defaults—reasonable and consistent
- Be careful about scope of representations that will be 'deemed' remade in the future



Document Review – Continuing Disclosure Reporting Requirements

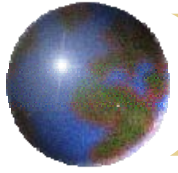
- Designate key contact for disclosure decisions
- Obligated Party vs. Dissemination Agent
- Contents of Annual Report
 - Audits
 - Updated financial information – make this reasonable and based on reports currently producing in your organization
- Material Event Disclosure
- Use the CPO (www.disclosureUSA.com)



Document Review –

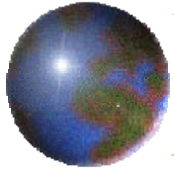
Understand Business Terms of Agreements

- What are your debt service payment dates?
- How often do you pay service providers i.e. trustee fees, remarketing agent?
- When does credit enhancement (LOC) expire?
- How and when do you receive invoices for debt service, remarketing agent, trustee?
 - Require bills for service to be sent within appropriate timeframe for your organization to process
 - Review ALL invoices for accuracy; don't assume correct



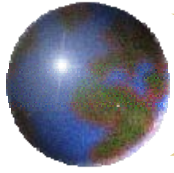
Document Review – Compile and Review All Compliance Reporting Requirements

- Speak-up; don't agree to reporting deadline or requirement you can't comply with
- Develop a list/ticker system
- Is annual reporting date consistent with timeline for completing CAFR?
- Are budget reports copies of documents already prepared by organization?
- Is your debt service budget/appropriation readily identifiable in your budget documents?



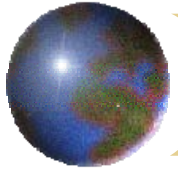
Document Review – Tax Certificate and Form 8038

- Don't view as closing certificate
- Review early in process, ensure consistency
- Understand the document; ask questions
- What is your bond year and why do you care?
- Do you have annual calculation requirements?
- What representations are being made regarding:
 - Project
 - Use of funds
 - Spend-down of proceeds
 - Yield Restriction



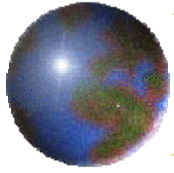
Land Based Financing – Special Items

- Keep bond documents
 - Community Facilities District or Engineer's Report
 - Rate and Method of Apportionment (CFD)
 - Boundary Map or Assessment Diagram
 - Formation Resolutions and/or Ordinances
 - Trust Indenture/Fiscal Agent Agreement
 - Annexations
- Define Roles and Develop Systems
 - Software
 - Consultants
 - Agency Staff



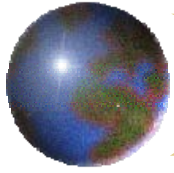
Establish or Identify Funds and Codes in Issuer's Accounting System

- Work with your Accounting Staff prior to bond closing
 - Have accounting staff review draft bond documents
 - Ensure consistency with bond documents
- Debt Management Accounting Activities
 - Tracking of revenue necessary for debt service
 - Internal accounting transfers and entries into accounting system
 - Review and monitoring of trustee reports



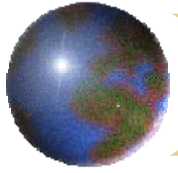
Insure Trustee Provides Online Access to Accounts from Closing Date

- Use technology to your advantage
- Online reporting reduces paper
- Ease of creating electronic records
- Easier to get documents to rebate consultant
- Provides real-time data on bond issue



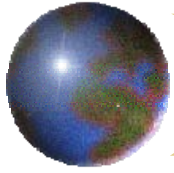
Cost of Issuance Account

- Estimate Costs of Issuance and Collect Invoices
- Create record of all payments
- Review and approve all payments prior to disbursement
- Monitor to “close out” COI when all funds have been disbursed



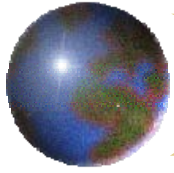
Provide Instructions for Initial Investment of Funds

- Obtain Projected Cash Flow and Encumbrance Schedules from project managers
- Establish Investment Agreements/LAIF Account as needed
- Develop process for monitoring balances in trustee held accounts
- Active monitoring construction activities
- Develop procedures for reinvestment of bond proceeds (*see handout*)



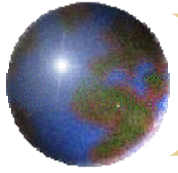
Disbursement of Bond Proceeds

- Establish Procedures for Disbursement of Bond Proceeds and Train Staff
 - Project staff
 - Finance staff
- Understand eligible expenditures
 - Working capital limits
 - Private Activity limits/restrictions
 - Use of proceeds



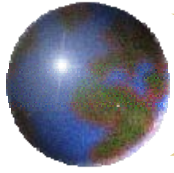
Land Based Financing – Special Items

- Develop and update parcel database
 - Start with database containing all parcels in district boundary including exempt parcels
 - Be clear on the “Triggers” – Certificate of Occupancy, Building Permit and cutoff dates
 - Developed vs Undeveloped
 - Track data fields required for application of the special tax
 - Keep historical records!



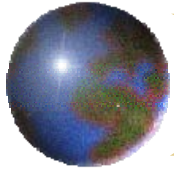
Budget Actions – “You’ve got to Pay it Back”

- Annual budget actions necessary to appropriate debt service and related payments
- Who in your organization is responsible for debt repayment activities
 - Verifying debt service payments
 - Making debt service payments/transfers
 - Timing of payments



Record Retention

- Establish Record Retention Requirements and Procedures
- IRS record retention requirements
 - Term of bonds + 6 years
 - Types of records
- IRS Website
 - www.irs.gov/taxexemptbond/index.html
 - FAQ's -- Record Retention Requirements (handout)
 - www.irs.gov/taxexemptbond/article/0,,id=134435,00.html



Summary

Ask questions ... ask questions ... ask questions

- In the end, just issuer, trustee and bondholder
- Don't commit to requirement until you understand the implications
- Active engaging process from beginning to end

